

Federal Home Loan Bank  
of Indianapolis  
Affordable Housing Program



**2002-2003**  
**Community Lending Plan**

Approved by FHLBI Board of Directors  
on December 13, 2001

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## **BACKGROUND**

In 1998, the Federal Housing Finance Board adopted the Community Investment Cash Advance (CICA) regulation to provide FHLBanks an avenue for expanding community investment initiatives.

The CICA regulation requires each FHLBank to develop a Community Lending Plan. This plan is to be approved by the FHLBank's board of directors and requires each FHLBank to

- conduct market research in its district;
- describe how it will address the identified credit needs and market opportunities;
- consult with its Advisory Council and with members, nonmember borrowers, and public and private economic development organizations in its district in the development of its Community Lending Plan; and
- establish quantitative community lending performance goals.

The CICA regulation defines "community lending" as "providing financing for economic development projects or activities for targeted beneficiaries." The FHLBI's 2002-2004 Strategic Plan, the 2002 Implementation Plan, and this plan will adequately address a comprehensive approach to serving our members using all of the FHLBI's products and services. This approach is reiterated in our mission that is shown below.

The mission of the FHLBI is to maximize the value of membership through its support of Indiana and Michigan financial institutions by

- creating and offering financial products and services that assist and improve its members' financing of housing and community lending,
- promoting and contributing to activities vital for fulfilling affordable housing and community investment objectives,
- providing a market return on the capital invested by shareholders, and
- creating a challenging work environment in which all employees have the opportunity to reach their potential.

## **MARKET NEEDS ASSESSMENT**

In 1999, the FHLBI, through member and key informant surveys, interviews, and other dialogue, conducted market research to assess unmet credit needs in the sixth district. A new survey will be conducted in 2002. In the previous survey, however, economic development needs were identified as follows:

- job creation and retention,
- infrastructure improvements, and
- small business creation and expansion.

## **COMMUNITY INVESTMENT PROGRAM**

The Community Investment Program (CIP) continues to experience increasing demand by member bank institutions as a tool for their economic development financing. The CIP is very flexible and can be used not only for housing projects, but also for projects that create jobs or benefit low- and moderate-income families or projects located in low- and moderate-income neighborhoods. In 2000, the FHLBI expanded the targeting of the CIP for projects located in rural and urban areas. Additional "targeted beneficiaries," i.e., brownfield sites, small business loans, and Champion Communities were included in the eligible list of projects. Most success was shown in the small business area where member banks continue to use these discounted advances to make loans to businesses such as fast food franchises, grocery stores, hotels, and dry cleaners.

The goals set for community lending and the strategies we intend to use to achieve them are enumerated below.

### **2002 COMMUNITY LENDING GOALS**

- Achieve a target of \$100 million new project-oriented advance originations in CIP advances.
- Assist in the bank-wide goal of increasing outstanding advances (including CIP advances) to community financial institutions (CFIs) made for the purpose of funding multi-family housing, small business, small farm, and small agri-business loans to at least \$10 million in new advance originations and issuing \$10 million in letters of credit.
- The FHLBI, together with ten other federal home loan banks, are preparing a private letter ruling request to the Internal Revenue Service to clarify the status of Federal Home Loan Bank letters of credit in connection with tax-exempt bonds for economic development projects. There has been some concern expressed among bond counsel firms that the use of a Federal Home Loan Bank letter of credit would violate Section 149 of the Internal Revenue Code, thus causing the bonds to lose their tax-exempt status. Clarification by the IRS that letters of credit would not cause this result would greatly enhance the ability of the FHLBI to assist in financing economic development projects in our district.

### **STRATEGIES (as outlined in 2002-2004 Strategic Plan)**

- Promote combining CIP advances with regular advances or AHP awards to expand support to low- and moderate-income families.
- Include CIP/CICA advances in the FHLBI's incentive compensation plans to demonstrate our commitment to these goals. Exceeding the target level to achieve the maximum incentive distribution.
- Expand usage of CIP by community financial institutions.
- Continue to develop UDA/RDA programs to encourage broader use of CIP advances.
- Promote blending of CIP products by member banks in the development of affordable housing.
- Coordinate marketing efforts by marketing and community investment divisions to increase participation in CIP.

## **AFFORDABLE HOUSING PROGRAM**

The AHP continues to provide critical gap financing for affordable housing projects. AHP enables member banks to actively participate in the development of affordable housing, expand new relationships with non-profit and for-profit developers, and increase community presence.

The 2002 Implementation Plan and other programmatic changes will reflect the FHLBI's attempt to continue to

refine the process, increase regulatory compliance, and encourage use of the AHP. Important changes this year include the following.

- Points awarded for project readiness to ensure prompt utilization of awards.
- Increased opportunities for homeownership projects in the competitive process through a district priority.
- Introduction of a new web-based application to be introduced in early 2002.
- Further develop staff expertise in the areas of applications and reporting to provide the members a ready resource to assist with these requirements.

In addition, staff continues to pursue establishment of coordinated monitoring agreements with the housing finance authorities of Indiana and Michigan.

## **HOME SAVINGS PROGRAM**

The FHLBI took advantage of the waiver provided by the FHFB in 2001 that allowed for an increase to 25% for the set-aside program. This allocation will continue in 2002, with an estimated \$3.5 million made available.

## **MARKETING, OUTREACH and COMMUNITY SUPPORT**

During 2001, at the request of the Affordable Housing Advisory Council and Affordable Housing Committee of the Board, the staff performed historical analysis of the distribution of Affordable Housing Program dollars by state. The breakdown of homeownership versus rental project awards was also analyzed. Historical data indicates a wide disparity in AHP dollars awarded in Indiana and Michigan. For instance, over the last five years, two times as much funding has gone to Indiana. Numerous factors can be cited as reasons for this imbalance, however, one significant issue is lack of member participation in Michigan. The community investment staff has committed to work towards a more even distribution through efforts described below.

### ***MARKETING and OUTREACH and GOALS***

- Conduct 2-3 member bank focus group meetings to provide a forum for member education regarding AHP, HSP and CIP. These focus groups will initially be targeted in Michigan.
- Conduct additional seminars throughout the district on how members and non-profit sponsors may use AHP and CIP to address affordable housing and community economic development throughout Indiana and Michigan.
- Increased efforts to visit project sites for those participating or planning to participate in the competitive AHP funding round.
- Compliance-specific workshops and conference calls to assist members with ease of compliance with AHP policies and procedures.